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SUBJECT: US-China Energy Policy Dialogue: Room for
Cooperation

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11. (SBU) Begin Summary: The fourth U.S.-China Energy Policy Dialogue (EPD) held September 27 in Qingdao agreed on the importance of deepening cooperation on clean energy issues in order to address global climate change and to strengthen energy security, and noted this topic would likely be high on President Obama's agenda during his November visit to China. The Chinese briefed on their energy policy, including more efficient coal plants. Both sides exchanged views on a U.S.-China Clean Energy Research Center (CERC) MOU, possibly with a goal of having it ready to announce during the President's visit, although China's Ministry of Foreign Affairs (MFA) had reportedly instructed Chinese ministries not to prepare any formal signings for the visit. China expressed skepticism about the viability of carbon capture and storage (CCS), preferring reforestation for carbon sequestration. China did not provide details on how it would achieve President Hu's pledge to cut China's carbon emissions per unit of GDP by a "notable margin" as the issue was still under discussion. The U.S. side encouraged China to provide transparent and timely energy data in order to reduce price volatility. China raised problems related to U.S. nuclear power plant sales, including restrictions on information transfer and visa difficulties. Both sides agreed to work on renewable energy cooperation, including standards. End Summary.

Key Energy Policies

12. (SBU) Administrator of the National Energy Administration (NEA) Zhang Guobao opened the September 27 Energy Policy Dialogue (EPD) with a call for honest, frank and actionable discussions. Department of Energy Assistant Secretary David Sandalow summarized energy generation and consumption in the United States and highlighted new energy policies implemented by the Obama Administration. He projected the U.S. energy mix out to 2020 and recognized U.S. responsibilities for CO2 reductions. Zhang provided a similar overview. He reported the percentage decrease in total energy production by coal but admitted the most efficient coal plants are only operating at 65 percent capacity, giving way to an accelerated program of

shutting down less efficient plants.

Clean Energy Research Center (CERC)

13. (SBU) Sandalow said DOE had commented on the CERC MOU prepared by China's Ministry of Science and Technology (MOST) and cleared it through the U.S. interagency process just before the EPD. The main changes proposed by DOE were in the management structure and the inclusion of a detailed annex to address intellectual property rights. He sought timely concurrence by MOST and NEA.

14. (SBU) MOST's Ma Linying said MOST and NEA were finalizing comments on DOE's draft but agreed in principle on DOE's proposal: 1) a joint minister-level council represented by Secretary Chu on the U.S. side and MOST's Wan Gang and NEA's Zhang Guobao on the Chinese side; 2) separate secretariats to implement work plans; and 3) focus on concrete demonstration projects and not on conferences or journal articles. While China agreed with DOE on the need for a limited number of research areas, NEA's Li Ye outlined additional areas of interest including nuclear energy, smart grid technology, high-capacity storage systems, bio-fuels, and ultra-high-voltage power transmission.

15. (SBU) Sandalow stressed it would be important to start with a small number of research topics and proposed building energy efficiency; clean coal,

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including carbon capture and storage (CCS); and clean vehicles as initial areas for cooperation. Sandalow said it would be important to work with universities and industry to leverage CERC's initial USD 15 million funding.

16. (SBU) Sandalow said he hoped the MOU would be ready for Secretary Chu and Minister Wan to initial in London in mid-October with an eye towards a formal signing during the President's visit in November. Ma replied that China's MFA had instructed Chinese ministries not to prepare any formal signings during the November visit but they agreed to coordinate with MFA and DOE to determine the best way to include this as a clean energy deliverable for President Obama's visit. Both agreed it would demonstrate to the world that China and the U.S. were ready to work together on clean energy and climate change.

Clean Coal

17. (SBU) NEA Administrator Zhang Guobao expressed skepticism about the commercial viability of CCS saying the issue needed additional scientific analysis and research. He claimed that capturing and storing CO2 would increase a power plant's energy use by 20-30 percent. He also doubted that there were sufficient geologic formations to store significant amounts of carbon. Zhang said China prefers reforestation over CCS as a more efficient way to capture carbon.

18. (SBU) DOE Principal Deputy Assistant Secretary Victor Der said the United States has made detailed geologic studies of U.S. storage capacity and believes it has several hundred years of capture potential. An example is the joint U.S.-Canada Weyburn project that takes CO2 from a U.S. synthetic fuels plant and ships it to Canada for enhanced oil recovery. Both sides recognized that large scale

commercial viability of CCS is a decade or more away but that research and development work is being pursued to both reduce the cost of CCS and to explore commercial uses for CO2.

Reducing China's Carbon-Intensity

¶9. (SBU) When pressed by Sandalow for details on specific targets or timeframe to achieve President Hu's pledge to cut by a "notable margin" China's carbon emissions per unit of GDP, Zhang replied the details were intentionally not provided because they haven't been established yet. He said Chinese experts were working carefully on the issue, both how to measure the reduction and in setting an appropriate target. At the working level, Zhang said there is broad consensus that China needs to reduce its carbon intensity.

Oil, Gas and Energy Security/SPRs

¶10. (SBU) Both sides highlighted the rising projections in unconventional gas production, technology advances and the need for free trade policies. Der explained the U.S. policy, strategy and utilization of the U.S. Strategic Petroleum Reserve. State Department Energy Division Chief Peter Secor encouraged China to provide transparent and timely energy data in order to reduce price volatility. Zhang expressed frustration over large swings in oil prices which he blamed on financial speculators. Sandalow suggested further engagement on this issue by technical experts.

¶11. (SBU) Secor also encouraged China to coordinate internationally in the event of a supply emergency. This could be done through the IEA or other international fora. Zhang suggested oil prices were affected by U.S. decisions to purchase SPR stocks, an assertion rejected by Sandalow.

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Nuclear

¶12. (SBU) DOE China Office Executive Director Marty Schoenbauer reviewed U.S. policy and program changes under the Obama Administration and discussed U.S. China collaboration in both multi- and bilateral programs. He attached importance to China taking a more global leadership role in nuclear energy. NEA's Xu Yongsheng reaffirmed U.S.-China nuclear energy cooperation, but made a point that recent U.S. policy changes have taken the United States and China down different paths with regard to fuel reprocessing and application of fast reactors. He repeated China's desire to have additional third party software provided as part of the Westinghouse technical transfer program and China's dismay over 10CFR810 which restricts the transfer of commercially restricted or confidential atomic energy information. Several Chinese officials expressed concerns over delays in issuing U.S. visas for technical staff and officials. On visas, Schoenbauer said the process had recently been streamlined and reviews were being completed in 10 working days. He said U.S. export controls for atomic energy are deliberately thorough and take some time to be completed. He asked China to work to resolve AP1000 project issues with Westinghouse and government policy issue with the USG.

¶13. (SBU) Sandalow said DOE Deputy Secretary Dan

Poneman looked forward to attending the Global Nuclear Energy Partnership ministerial meeting which China will host on October 23.

Energy Efficiency and Renewable Energy

¶14. (SBU) DOE Office of Energy Efficiency and Renewable Energy Senior Executive Mark Ginsberg said the United States and China were working closely on improving building efficiency as well as renewable energy sources such as biofuels, wind, and solar. Sandalow suggested agreements on energy efficiency and solar power could be highlighted during the President's November visit. Zhang replied it would be a positive step forward to reach agreement on technical standards for solar and other renewable energy sources.

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